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SUBJECT: EASTERN LATVIA - ECONOMIC WOE, SOCIAL ACCEPTANCE

(U) 1. Summary: Latgale, the region of Latvia bordering Russia, suffers a particularly dire economic situation. While some higher-value-added industries have weathered the economic crisis, the predominant sectors have declined. Unemployment is significantly higher than the Latvian average, and many young people leave the region upon finishing school. Despite the economic pain, social integration in the region is relatively good, and the political establishments in various towns are experimenting to try to turn their economic fortunes around. No political party holds particular sway in the region, but opinions on whether this might change in the upcoming election were mixed. End Summary.

(U) 2. In March and April, 2009, Pol-EconOff visited cities across Eastern Latvia, discussing political, economic, and social trends in the region. We spoke with municipal governments, NGOs, businesses, and high-school students in Daugavpils, Rezekne, Kraslava, Balvi, and Dagda.

Economy in Bad Shape

(U) 3. The most prominent, if unsurprising, feature of the region is an economy that continues to lag behind much of the rest of Latvia. Local registered unemployment reaches as high as 23% in the region surrounding Rezekne. The construction industry that had once provided a boost to the region's economy has almost completely collapsed. However, more advanced manufacturing continues at an only slightly diminished rate. For example, prominent employers like a large train repair and maintenance shop, a forensic instrument producer, and French-owned electronic cable maker continue their relatively labor-intensive activities in Daugavpils at only slightly reduced levels.

(U) 4. The cities of the region are trying a variety of approaches to ease economic pain, but so far results are limited. Local government in Daugavpils, by far the largest population center in the region, is focused on using large public works to boost employment. Among other plans, they have just announced a tender to renovate a Soviet-era military airport to build a commercial facility. Like most nearby cities, Daugavpils' leaders charge that the national government directs too much public money to Riga, to the unfair exclusion of other regions.

(U) 5. Other cities have taken more market-based approaches. Rezekne, for example, has a Special Economic Zone featuring significant tax breaks for businesses started there. However, few businesses have built facilities in the zone, and those that have are local businesses that see the tx breaks as a bonus, not as the driver of their decision to locate in the area. Although NGOs are still relatively scarce in Latvia, residents of Balvi have started a project that offers free adult-education classes in English and bookkeeping to help spark entrepreneurship in the area. Nevertheless, many high school students plan to leave the region upon graduation, unlikely to return.

Politics in Less Bad Shape

(U) 8. Latgale is perhaps the most diverse region of Latvia, which large groups of ethnic Latvians and Russians share with smaller populations of Belarusians, Poles, Lithuanians, and others. Unlike in Riga, where Latvian-Russian ethnic tensions are running high, most in Latgale see ethnicity as a non-issue. The vast majority of Latgale's Russian-speaking residents are citizens (their families having lived in the area long before the Soviet occupation), and the largest cities have cultural centers or civic organizations representing each of the minority groups.

(U) 8. The political landscape in Latgale remains splintered. The towns in this region are not large, and the politics is largely driven by personality rather than party. Rezekne is a perfect example, where the 13 seats on the town council are held by 11 parties. With even more parties having announced their intentions to field candidates in the upcoming June 6 election, few observers are willing to speculate on who will come out ahead. While many of our interlocutors expressed concern about the potential closure of schools for budgetary reasons, few seemed to think it was going to motivate many voters in the region. While the national parties stand to gain or lose standing in these elections, losses or gains in most of Latgale will probably be modest.

¶9. Inga Goldberga, Head of the Daugavpils Economic Development department, expressed concern that the difficult economic conditions may drive many of the city's ethnic-Russian majority to vote for PCTVL, a far-left party identified with a more aggressive advocacy for Russian residents' interests.

¶10. Comment: Eastern Latvia is suffering the brunt of Latvia's economic woes. While Latgale's political leaders seem energetic and are trying a variety of approaches to get the economy on track, it

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is not clear that they are up to this monumental task. However, the survival of high-tech manufacturing and the relatively harmonious ethnic relations in Daugavpils show that there are still lessons Riga could learn from Latvia's second city.

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